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Macroeconomic policy questions: ...nancing of development, including net transfer of resources between developing and developed countries

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Working paper, presented by Mexico

Towards a stable and predictable international financial system responsive to the priorities of economic growth and social development

At the fifty-third General Assembly, the Minister of Foreign Affairs of Mexico proposed that the Member States, coordinated by the Secretary-General, should undertake an exercise of reflection which would contribute to design an early warning system to enable the international community to prevent and respond to financial crises in a timely manner. This initiative found support in resolution 53/172 entitled "The financial crisis and its impact on growth and development, especially in the developing countries".

In that resolution, the Secretary-General was requested to submit a report on the current trend in global financial flows and modalities to improve early warning, prevention and response capabilities for dealing with the emergence and spread of financial crises in a timely manner, taking a comprehensive and long-term perspective, while remaining responsive to the challenges of development and the protection of the most vulnerable countries and social groups.

On the basis of that resolution and in order to enrich Secretary-General Kofi Annan's report to the fifty-fourth session of the United Nations General Assembly, the high-level regional meeting "Towards a stable and predictable international financial system and its linkage to social development" was held at the initiative of the Mexican Government and with the support of ECLAC on 5 and 6 September 1999 in Mexico City, with the participation of high-level government officials of the countries of the region, as well as specialists and prominent officials of multilateral institutions connected with financial and social areas.

The high-level regional meeting undertook an in-depth analysis of the international financial architecture and its linkages to development. The participants underlined the need to define a new world financial scheme that includes a social projection.

The results of the high-level regional meeting have already been forwarded to the Secretary-General, for their circulation as an official document of the General Assembly.

Among the conclusions of the referred high-level regional meeting, the following are included:

First, the participants expressed their concern over the fact that once the most visible effects of the crisis are overcome, it is observed a dangerous attitude of self-complacency. The countries of the region indicated that they are convinced that a renewed effort is required in order to strengthen the global financial system, and they reaffirmed their commitment to actively participate in this task.

Second, the participants emphasized the need to have a stable, transparent, predictable, orderly and safe international financial system. To this end the different actors must accept and comply with their respective responsibilities. International financial agencies must redesign their policies in order to respond to the great challenges created by the financial markets, must develop mechanisms of early warning and must expand their resources to provide timely and appropriate help to troubled economies.

On their part, countries must commit themselves to follow macroeconomic policies that tend to achieve growth and social justice. They must recognize the burden that the lack of adequate supervision and regulation of national banking systems had in the crisis, and solve this problem. A solid banking system is essential to protect a country from speculative capital movements.

Third, the participants recognized the devastating impact the financial crises have over the social situation and the future development of our countries. In this regard, they expressed the need to move towards a financial architecture that reconciles the economy with society, and also reconciles international finances with sustained social development. They reaffirmed their absolute conviction that sustained growth is the most effective method to reduce inequality and poverty.

Fourth, the participants agreed that the ultimate purpose of international development banks must precisely be human development. They deemed it fundamental that these institutions provide financial support for the creation of basic networks of social protection in times of crisis, without losing sight of the broader goals of growth and development.

Fifth, the participants agreed that the United Nations must play a central role in the promotion of integral social development, through the build-up of international consensus that help to support and renovate the global financial architecture.

In this context, for Mexico it is encouraging that in 2001 the United Nations will sponsor a high-level meeting on financing for development. This will be an ideal opportunity to comprehensively address the problem of development, from the perspective of finance. We will then give follow-up to the conclusions and recommendations emanating from the Mexico Meeting, and from those that will be held in several other regions and forums. We can thus involve all participants in the design of the financial architecture of the twenty-first century.

Building on the substance of resolution 53/172 and the outcome of the referred high-level regional meeting, the following elements are proposed as a contribution to a General Assembly resolution under item 97 (b), which should address the challenge of ensuring a stable and predictable international financial system responsive to the priorities of economic growth and social development.

The stability of the international financial system and development

The General Assembly,

(a) Reaffirming its resolution 53/172 of 15 December 1998 on the financial crisis and its impact on growth and development, especially in the developing countries,

(b) Welcoming the results of the high-level regional meeting held in Mexico from 5 to 6 September 1999, with the collaboration of the Economic Commission for Latin America and the Caribbean (ECLAC), in order to contribute to the process launched by resolution 53/172,

(c) Recognizing that the recent financial crisis has underlined the need to strengthen and reform the international financial system to enable it to respond more effectively and in a timely manner to the new challenges of global financial integration,

(d) Concerned that a sense of complacency may emerge as some of the most visible effects of the crisis seem to be overcome in some regions and sectors, which may result in the weakening of the efforts to strengthen and reform the international financial system,

(e) Emphasizing that the United Nations, in fulfilling its central role in the promotion of development, must contribute to the build-up of the necessary international consensus for strengthening and reforming the global financial architecture,

(f) Also emphasizing that the international financial stability is a global public good and that all nations should be responsible for ensuring the consistency of global financial policies with the priorities of economic growth and social development,

1. Welcomes the report of the Secretary-General entitled "The financial crisis and its impact on growth and development, especially in the developing countries";

2. Emphasizes the need to renew national, regional and international efforts, at the intergovernmental and inter-agency levels, in order to ensure a stable and predictable international financial system, responsive to the priorities of economic growth and social development;

3. Calls on all countries, particularly major industrialized countries, to adopt and pursue coordinated policies conducive to world economic growth and international financial stability, as well as to promote a favourable external economic environment for a sustained and more balanced global economic recovery;

4. Stresses the importance at the national level of sound macroeconomic policies and policies aimed at strengthening the regulatory and supervisory systems of the financial and banking sectors, including adequate institutional arrangements both at the sources and destinations of international capital flows, while giving priority to achieving growth and social justice;

5. Reaffirms the need for a continued and constructive dialogue in the appropriate forums among developed and developing countries on issues related to strengthening and reforming the international financial architecture, including at the regional and subregional levels;

6. Emphasizes the need for the international community to continue to work together in formulating a global agenda for financial stability responsive to the priorities of economic growth and social development, and in this regard encourages efforts to strengthen the cooperation and the collaboration among the United Nations system, the International Monetary Fund, the World Bank, the regional development banks, the World Trade Organization and other relevant international economic institutions;

7. Encourages the deepening of the dialogue between the Economic and Social Council and the Bretton Woods institutions, in order to create the conditions needed to ensure that the new international financial architecture reflects the global interests of the international community;

8. Stresses the need to define the role and to improve the capacities of the international, regional and subregional financial institutions with regard to the prevention, management and resolution in a timely and effective manner of international financial crises, and in this regard encourages efforts to enhance the stabilizing role of regional and subregional financial organizations and arrangements in supporting the management of monetary and financial issues;

9. Underscores the need for an adequate and equitable representation and participation of developing countries in the relevant decision-making processes of international financial institutions and forums, in particular those working on the strengthening and reforming of the international financial architecture;

10. Underscores also the need to provide adequate international liquidity for emergency financing to countries affected by financial crises in a timely manner. In this context, recognizes the need of the review of the international financial institutions quotas system, the anticyclical use of special drawing rights, the creation and strengthening of regional reserves, and the further accessibility, transparency and timeliness of contingency credit lines;

11. Underlines that the international financial institutions, in providing policy advice and supporting adjustment programmes, should ensure that they are fully consistent with economic growth and social development national priorities, including through the protection of levels of social expenditure determined by each country on the basis of its needs;

12. Emphasizes that the international and regional financial institutions should strengthen their early warning and prevention mechanisms, and in this regard encourages the International Monetary Fund to deepen its efforts to develop relevant empirical models in this area;

13. Recognizes that all nations should retain the right to safeguard their capital accounts in accordance with their own national priorities and needs, and in this context underlines that the opening of the capital account must be

carried out in an orderly, gradual and well-sequenced manner, keeping its pace in line with the ability of countries to sustain its consequences;

14. Reaffirms the need to strengthen international and national financial systems through a more effective national, regional and international surveillance of both the public and private sectors, based upon the improvement of the availability and transparency of information;

15. Underlines that sovereign risk assessments should be based on strict, objective and transparent parameters, and in this regard recognizes the need to develop rules and standards accepted by the international community at large, as well as to review the role of risk-assessment agencies;

16. Calls on the renewal of national, regional and international efforts to promote the greater involvement of the private sector in forestalling and resolving financial crises and to ensure the more equitable distribution of the costs of systemic adjustments between the public and private sectors, and between debtors and creditors and investors;

17. Encourages the efforts of the World Bank and regional development banks to help Governments to address the social consequences of crises, in particular through the strengthening of social safety nets for the most vulnerable, without losing sight of the longer-term goals of growth and development;

18. Requests the Secretary-General to support, through the collaboration of the United Nations regional commissions, those regional meetings convened to contribute to the design of a global agenda towards a more stable and predictable international financial system responsive to economic growth and social development. In this regard, further requests the Secretary-General to make available the results of those exercises to the preparatory processes leading towards the quinquennial review of the Social Summit and the Millennium Assembly scheduled for the year 2000, as well as towards the high-level meeting on finance for development that will take place in the year 2001;

19. Requests also the Secretary-General, in close cooperation with all relevant entities of the United Nations, including the United Nations Conference on Trade and Development, and in consultation with the Bretton Woods institutions, to provide recommendations to the fifty-fifth session of the General Assembly for the design of a global agenda towards a more stable and predictable international financial system responsive to the priorities of economic growth and social development;

20. Requests further the Secretary-General, in cooperation with the Bretton Woods institutions and the United Nations Conference on Trade and Development, to report to the General Assembly at its fifty-fifth session on the implementation of the present resolution.